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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY BONN 2228 Desp.No. 4047887

TO : THE DEPARTMENT OF STATE, WASHINGTON June 6, 1957

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SUBJ : The Volkswagen Bill

Summary

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The CDU/CSU bill providing for conversion of the Volkswagenwerk to a stock company and issuance of "people's shares", first announced by Economics Minister Erhard on May 14 at the CDU convention, has been subject to wide discussion and divergent reaction. The main provisions of the bill, which declares the Volkswagenwerk to be property of the Federal Government, relate to shaping the enterprise into a corporation, revaluation of assets and refixing of capital stock, issuance of at least 25 percent of shares in denominations of DM 50, limitation of share ownership and voting rights to natural persons with certain exceptions, discounts or preferential prices to low-income buyers and Volkswagen employees, and use of returns from sale of shares for certain economic promotion purposes, including, after reunification, economic integration of the East Zone.

Much of the press and other comment on the proposal has emphasized the practical questions involved, especially the problem of ownership, which is claimed by both the Federal and the Lower Saxony Government; the handling of claims against the Volkswagenwerk, particularly those of the "Volkswagensparer"; and difficulties and delays in revaluation of assets and refixing of capital. In addition, this despatch gives some consideration to possible effects on the West German capital market of the introduction of Volkswagen shares, should they become a reality.

The bill was submitted by the CDU/CSU and the DP (FVP). In addition, it has the general support of the FDP. The SPD opposes the bill, as does the DGB (German Federation of Labor). The BDI (German Federation of Industry) generally favors the measure. Partisan and other reaction to

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the bill is more or less the same in Lower Saxony as on the national level. However, the Lower Saxony Government, a coalition of the same parties which support the bill in the Bundestag, differs on the question of ownership of the Volkswagenwerk and is asserting its claim in that regard. The management of the Volkswagenwerk prefers to maintain the present status indefinitely, while Volkswagen employees staged a one-hour strike protesting the bill the day it was debated in the Bundestag, Friday, May 31. In that debate, Minister Erhard and other CDU/CSU spokesmen stressed the avowed purposes of the measure, which was attacked in principle only by SPD deputies. Other deputies limited criticism to its being introduced so late it could not be handled during this legislative period. END UNCLASSIFIED

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The conclusion is that the CDU, while having generally sponsored the private ownership principle, has introduced the Volkswagen bill at this time for reasons more political than economic, having an eye on the forthcoming elections. The bill is hardly expected to be enacted before the elections. Even if it should become law sometime later, the many problems relating to ownership, settlement of claims and revaluation of assets would mean considerable delay in implementation. END OFFICIAL USE ONLY

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During the recent CDU party convention in Hamburg, Economics Minister Erhard made an announcement that was headlined all over Germany. In a long speech entitled "Prosperity for All" he reviewed the remarkable West German economic recovery and fast rising standard of living in the light of the coalition Government's free enterprise principles, and he stressed the CDU aim of "broader ownership of the means of production". He climaxed the speech with the statement that a CDU/CSU bill was being introduced immediately into the Bundestag which would provide for the conversion to private ownership of the government-controlled Volkswagenwerke. Emphasizing that this would be done through the sale of small denomination "people's shares", he added that the Volkswagen move was only the first of various steps to dispose of state-run enterprises.

Enclosure No. 1 is a copy in German of the Volkswagen bill, dated May 22, 1957, which was given a first reading in the Bundestag on May 31, 1957. The principal provisions of the bill (the numbering not necessarily following the paragraphs of the German text) are summarized as follows:

1. The Volkswagenwerk is assumed to belong to the Federal Government since May 24, 1949.

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2. The Volkswagenwerk is to be immediately converted from a company of limited liability (G.m.b.H.) to a stock company (A.G.). Its fixed assets are to be newly evaluated under expert opinion and the capital stock is to be re-fixed.

3. The shares must be registered. At least 25 percent of the capital stock is to be issued in the minimum denomination of DM 50, notwithstanding provisions of the Law on Stock Companies (i.e. that shares must have a nominal value of at least DM 100).

4. The transfer of shares, which cannot be done under blank endorsement, is subject to the approval of the board of directors. With certain exceptions, such as to credit institutions for a limited period and to investment fund companies, no transfer can be made to juridical persons.

5. No natural person may hold more than 1/20,000th of the capital stock. Not more than one-third of the capital stock may be in investment fund companies and not more than one-third with accompanying voting rights in credit institutions.

6. Voting rights are limited to natural persons, certain specified representatives of natural persons, credit institutions in accordance with written instructions of respective shareholders, and investment fund companies, the latter to a number of votes corresponding to not over 1/100th of the capital stock.

7. Shares may be acquired at a discount of 10 percent by natural persons whose taxable annual income does not exceed DM 15,000, and at a discount of 20 percent by those whose taxable income does not exceed DM 9,000 per year.

8. Shares acquired at a discount may not be transferred, except to savings institutions, for a period of three years unless the difference in price is paid prior to transfer or sale.

9. Employees of the Volkswagenwerk may obtain shares totaling up to DM 1,000 of nominal value on a privileged basis, i.e. by accepting within three months of their offer (by the Federal Government from 6 to 9 months after the first fixing of a quotation on the stock market) shares at either the current quotation or the first officially fixed quotation, whichever is lower.

10. Volkswagen shares are to be immediately introduced on the stock exchange at a quotation fixed by the Federal Finance Minister on the basis of expert opinion. For six months after introduction, the Government may not sell the shares at lower than the entering quotation, notwithstanding provisions for preferential selling to low income persons and Volkswagen employees.

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11. The Federal Government must announce in the Federal Gazette the point when shares in the nominal value of more than three-fourths of the capital stock have been sold.

12. Returns from the sale of shares are to be put in a special fund to be administered by the Federal Minister for Economics and used, pending reunification, for loans for promotion of economic integration of the Saar, water supply projects, and small business. After reunification, it will be used to promote the economy of the former Soviet Zone. Interest earned by the fund will also be used for government promotion of research, education and technical training.

13. Claims on the former Deutsche Arbeitsfront (DAF) and its representatives will be decided in a future law regulating National Socialist liabilities, taking into account the provisions of the present legislation.

14. This law becomes effective on the date of its promulgation and is also valid in Berlin.

Main Points at Issue

Aside from partisan reaction to the Volkswagen proposal, as discussed below, press and other comment stressed several points of possible difficulty connected with the plan. Foremost among these is the ownership question. According to the press, the Federal Government bases its claim on British Military Government Ordinance No. 202. Article 6 of that Ordinance, dated October 1, 1949 and effective September 6, 1949, stated in part that "until otherwise provided by the competent German authorities Land Niedersachsen shall assume on behalf of and under the direction of the Federal Government the control of ... the Volkswagenwerke G.m.b.H." (The date of May 24, 1949 given in the Volkswagen bill as the effective date of ownership by the Federal Government coincides with the date on which the Basic Law, or Constitution, came into being.)

The Government of Lower Saxony, however, is also making a claim to ownership and is reported to have submitted letters to the Federal Government last week in this regard, stating that in its capacity as a Bundesrat member it would exhaust all legal possibilities to oppose the transfer of the Volkswagenwerk into private hands before the question of ownership is finally settled. During this week the Niedersachsen Cabinet met and unanimously agreed on a press statement to the effect that, while it took no position on the question of privatization of the Volkswagenwerk, it maintained that Niedersachsen is the owner and its claim must first be taken into account. Enclosure No. 2 is a copy of part of a memorandum from the American Consulate General at Hamburg which details arguments on which the Niedersachsen Government bases its claim, as well as its reasons for pressing the issue.

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Another difficult point to settle is generally conceded to be the problem of claims against the Volkswagenwerk. The proposed law provides that separate legislation, which will take into account this law, will decide the settlement of claims against the Deutsche Arbeitsfront (DAF) trustees and administrators (including for the Volkswagenwerk). The press recalled that the Federal Finance Minister, in a Bundestag debate in January 1957, asserted that the transfer of the Volkswagenwerk to private hands was out of the question before the lawsuit of the so-called "Volkswagensparer" (those who made deposits before 1945 toward the future delivery of a Volkswagen) was definitely settled. The FDP has suggested (see below) that the "Volkswagensparer" be compensated by gratis shares after the Volkswagenwerk becomes private property.

The problem of revaluation of assets and refixing of capital stock is a third point of difficulty so far as practical implementation of the proposed law is concerned. The company is generally estimated to be worth about DM 1 billion and is one of the most successful automobile companies in the world. (See despatch 126 of July 19, 1956 concerning the Volkswagen Annual Report for 1955.) Sales in 1956 probably amounted to at least DM 1.8 billion, although capital stock is set at only DM 60 million. Fixed assets at the end of 1955 were valued at close to DM 300 million, and further investments of DM 200 million were planned for 1956. It is generally expected that new capitalization would be fixed at from DM 300 to DM 500 million. END UNCLASSIFIED

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Possible Financial Effects

One of the key aspects of the plan is, of course, the placing of a large number of new securities on the market in a manner to attract funds from persons not ordinarily accustomed or considered able to hold shares. During 1956, the average monthly placings of shares was only about DM 150 million. However, since currency reform some DM 5 billion in shares and about DM 20 billion in fixed-interest bearing securities have been issued. Thus the issuance of Volkswagen shares, even to the nominal amount of DM 300 to DM 500 million, could not be expected by itself to have a major impact. The fame of Volkswagen success in both domestic and foreign markets might attract to such shares some funds already invested in other securities, with possible effect on the index of share prices, which has generally risen since mid-1956. However, limitations in the bill on distribution of Volkswagen shares are designed to ease pressure which might be applied to market prices of existing shares, and it is likely that the availability of low-cost Volkswagen shares might draw funds from the large and growing savings deposits, which approached DM 25 billion at the end of March 1957.

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The degree of success in floating the Volkswagen shares and any favorable psychological effect on the market would, of course, be watched carefully by private and public authorities alike. Business decisions on future flotations by other companies and decisions by Federal authorities with respect to other Government-held commercial establishments would certainly be affected.

Political Factors, Varying Reactions

The bill was signed by Drs. Adenauer, Erhard and other members of the CDU/CSU faction and by Dr. Bruehler and the DP (FVP) faction. One opposition party, the FDP, has come out in favor of it, recalling that in September 1956 it had proposed a similar plan. With a view, for one reason, to demonstrating to the public that it remains opposed to all socialization measures, the FDP has introduced a motion in the Bundestag to revise Article 15 of the Basic Law. (See Enclosure No. 3.) The revision would specifically prohibit the socialization of land, natural resources and means of production, which is allowed under the present version. (While a first reading on this amendment was begun in the Bundestag on May 31, debate was postponed and passage during this legislative period is considered very unlikely.)

More closely related to the Volkswagen bill is another parliamentary move by the FDP, a "Kleine Anfrage" (minor interpellation) whose text is given in Enclosure No. 4. It asks that the Federal Government inform it of the following: (1) whether the Federal Government is convinced that before the end of the Bundestag legislative period the ownership situation of the Volkswagenwerk may be clarified and the Law on Stock Companies changed to fulfill the prerequisites for the issuance of "people's shares"; (2) whether the Government would compensate the former "Volkswagen savers" with corresponding gratis shares when the property is transferred to private hands; (3) whether the Government will promote the transfer of other publicly owned enterprises to private ownership as requested by the FDP faction in its draft law of September 1956; (4) whether the Cabinet has reached agreement, particularly with the Federal Finance Minister, on the privatization of public property. (Minister Schaeffer has stated to the press that he does not oppose the move in principle but has pointed out that there are a number of legal questions to be clarified.)

SPD leader Ollenhauer is reported to have maintained it would be sensible to talk of "people's shares" only if they were not limited to the Volkswagen plant, referring also to privately controlled industrial giants. The influential German Federation of Labor (DGB), which is usually of the same view as the SPD on economic issues, has come out firmly against the Volkswagen bill. It maintains that the greater part of public property has never been private property and thus cannot be "reprivatized"; that some public property is operated at a loss for the benefit of all, without regard to questions of profit; that public property which is profitable (such as

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the Volkswagenwerk) can balance subsidies granted to non-profitable enterprises and thus reduce the tax burden; and that if the Volkswagenwerk and other profit makers are privatized, the public will only keep those establishments depending on subsidies, with the tax burden accordingly increased.

In contrast to the DGB, the German Federation of Industry (BDI) has welcomed the issuance of Volkswagen shares as a first step toward return to private ownership of government-controlled plants. A BDI spokesman emphasized, however, that "people's shares" and tax-privileged savings plans are "inadequate substitutes" for a thorough tax reform which would cancel double taxation of shares and provide for straight-line income tax reductions. A paper close to business and industry, INDUSTRIEKURIER, considered the announcement of the issuance of "people's shares" to be attempt of the government to apply "psychological" measures whose economic effects might be doubtful. It cited the view of an economist that small savers cannot bear the risk of stock price fluctuations, tend to sell when prices decline and thus speed up any downward trend of the stock market.

According to reports from the American Consulate General in Hamburg, the CDU/CSU move concerning the Volkswagenwerk has caused a storm of controversy in Lower Saxony, whose government is a DP/CDU/FDP/BHE coalition. Political and labor groups there generally have the same views as the national organizations. A majority of CDU supporters, for example, are in accord with the plan. However, a CDU minority headed by Niedersachsen Finance Minister Koch claims that the Volkswagenwerk is the property of the Niedersachsen Government and hence cannot be disposed of by the Federal Government. Apparently, Minister Koch hardly expects to see Lower Saxony end up as full owner but hopes to get the Federal Government to offer a generous settlement in return for withdrawal of the claim. (See Enclosure No. 2.) A Lower Saxony SPD spokesmen objects to turning over Volkswagen to private enterprise "principally because it is so large it could dictate prices in the whole automobile industry". In line with the traditional socialist and trade union attitude favoring the retention in government hands of such a large and important enterprise, many Niedersachsen socialists do not consider "people's shares" a guarantee that the enterprise will pass into control of numerous small owners and remain there.

Hamburg reports further that the Director General of the Volkswagenwerk, Dr. Nordhoff, also disapproves of the idea of Volkswagen "people's shares" and believes that a lengthy legislative program is necessary to form the legal basis for the transfer of the enterprise to private ownership, regarding the present discussion as very premature. In general, the Volkswagen management prefers to maintain the present status of the plant indefinitely. A spokesman stated that the settlement of legal issues will be very time consuming and that he regards the CDU/CSU draft as essentially an election manouver.

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On the present 15-member Aufsichtsrat (Board of Directors) of the Volkswagenwerk there are five representatives of Volkswagen employees, including Otto Brenner, chairman of the powerful Metal Workers' Union, who has announced that his union would fight privatization of the Volkswagenwerk with all possible legal means. He declared in a union publication that those who favor such a move "not only waste public property and endanger the security of employees but also promote monopoly and cartelization of business in the Federal Republic". While concepts voiced by Brenner have probably played some role in the attitude of Volkswagen employees in general, a more immediate influence is undoubtedly an unwillingness to give up the known for the unknown. At any rate, on the day the Volkswagen bill was debated in the Bundestag, the employees staged a one-hour strike in protest, fearful, according to reports, of losing some of the many social benefits they now enjoy if the enterprise is transferred to private ownership.

Current Status of Bill and Prospects

On Friday, May 31, the Volkswagen Bill was debated for over four hours in a "first reading" in the Bundestag, after which it was referred to committee. Minister Erhard and other CDU/CSU spokesmen stressed the intent of the bill to promote the formation of private property and spread ownership of the means of production. Only SPD deputies opposed the bill in principle, pointing also to the problems of ownership settlement and revaluation of the plant's assets, and arguing that the Volkswagenwerk should remain in government hands where it could favorably influence prices in the automobile industry. Other deputies (FDP, BHE and DP) were only critical that the bill was introduced so late that it could not, in view of the problems attached to it, be acted upon in this legislative period. CDU deputies did not argue this point. Even Minister Erhard, though stating he still hoped to get it through, admitted that the bill was late.

One ghost from the past has been thrown at the CDU by the SPD, the "Ahlener Program". (In a program adopted at a meeting in Ahlen in 1947 the CDU committed itself to socialization, if necessary, of certain basic industries.) CDU Deputy Theodor Blank, who formally presented the Volkswagen bill to the Bundestag, anticipated the arguments of the opposition by recalling that the Ahlener Program had been devised under very different conditions and pointing out that since then the CDU had persistently advocated a free enterprise system as best for West German economic development.

In conclusion, the Volkswagen bill is not inconsistent with the CDU's long-standing advocacy of the principle of private ownership of industrial enterprises. However, in actual fact little progress has been made so far in the sale of government-owned industries. Thus, it is quite clear (see also despatch No. 2230 of this date) that the introduction of the bill at

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this time has primarily a political motivation connected with the coming elections. Moreover, as was brought out in the Bundestag, not even its supporters expect the bill to be passed during this legislative period, which has about one month more to run. Even if passed at a later time, the innumerable claims and counterclaims relating to ownership and liabilities, as well as the difficult problem of revaluation of assets, would mean long delay before the Volkswagenwerk could actually be turned over to private ownership and the "people's share" system enter into operation.

For the Charge d'Affaires ad interim:

Donald B. Calder
First Secretary of Embassy

Enclosures:

1. German text of Volkswagen bill.
2. Part of a memorandum from American Consulate General, Hamburg.
3. German text of amendment to Article 15 of the Basic Law.
4. German text of Minor Interpellation 359 of the FDP faction.

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